

IDAHO FORECAST DESCRIPTION

The Forecast Period is the Third Quarter of 2006 through the Fourth Quarter of 2010

Idaho's economy should end this decade on a higher note than when it started it. Battered by the high-tech industry's implosion near the turn of the millennium, Idaho nonfarm employment grew an average of 1.8% per year from 1999 through 2004, which was well below the average for the previous five years. The state's computer and electronics sector suffered the most serious reversal of fortune from the initial high-tech collapse and its aftershocks. This sector enjoyed robust growth and was a steady cog in the state's long economic expansion. For example, this sector's employment declined in just one year (1999) from 1991 to 2001. However, it has contracted in four of the last five years. While Idaho real personal income did not retreat during this decade's first five years, it did slow considerably. The one noticeable exception came in 2004 when, aided by a strong farm sector, real Idaho personal income jumped 7.0%.

Driven by its construction and services sectors, Idaho's economy picked up speed in 2005. The construction sector received the most attention due to its stellar performance. Idaho housing starts topped a long string of gains by growing 25.3% in 2005. As a result, the state's construction payroll expanded by an amazing 13.3% in that year, which translates to about 5,300 jobs. With construction experiencing such stellar growth, the services category's fine performance was often overlooked. It is true services employment advanced "just" 4.4% in 2006. However, given this sector's huge base, services employment increased by 11,723 jobs, which is more than two times greater than the construction sector gain. It is also worth noting both the state's logging and wood products and mining sectors expanded in 2005. Idaho real personal income grew 3.6% in 2005.

Early indicators suggest the economy grew faster in 2006 than in 2005. Idaho nonfarm employment is estimated to have increased 4.3%, which is slightly faster than the previous year's 4.0% rate. Once again, construction employment, which grew 16.6%, contributed heavily to the economy's success. Services employment advanced 4.2%, which was down slightly from 2005. After a long absence from the plus column, Idaho computer and electronics employment posted a 2.4% gain last year. The strong employment gains pushed total wage and salary payments up 10.2% in 2006. This increase helped Idaho real personal income swell 5.8%, which was its best performance since 2004.

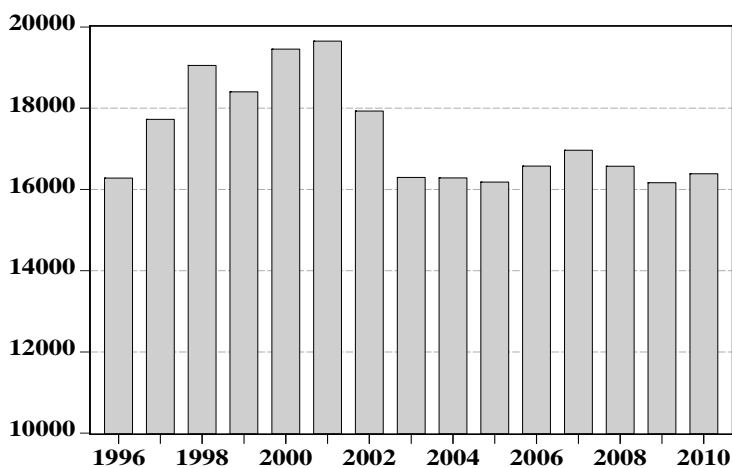
Looking ahead, total nonfarm employment growth is expected to slip below 3.0% in each year of the forecast period. This cooling reflects the anticipated declines in the construction sector. These decreases are more accurately described as a return to sustainable levels rather than a collapse. Specifically, after peaking at 52,634 jobs in 2006, Idaho construction employment will settle down to 50,242 jobs in 2010, which is still 5,000 more construction jobs than in 2005. Service employment growth is also expected to slow, but not retreat over the next few years. Overall, Idaho nonfarm employment is forecast to advance 2.5% annually, which is much faster than it grew earlier this decade. Idaho real personal income should also end the decade stronger than it started it. It is projected to increase 4.8% per year, which is higher than the 3.4% annual rate from 1999 through 2004.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: The state's largest manufacturing sector should experience relatively stable employment levels over the forecast period. While future job growth rates are expected to be far below those experienced in the 1990s, they will be an improvement over the declines this industry suffered earlier this decade. Idaho computer and electronics manufacturing was an important source for jobs during the state's protracted economic expansion, averaging 7.0% growth from 1991 to 1999. The momentum from this growth help it minimize calamities from the lows of the business cycle, which helped it peak at nearly 21,000 jobs in 2001.

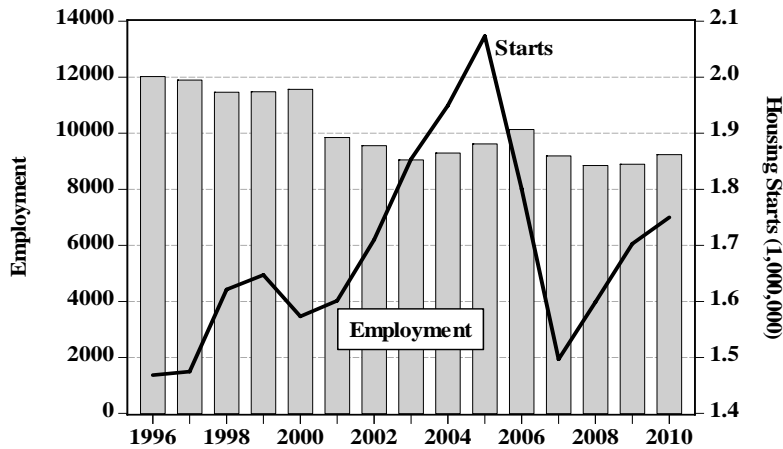
Unfortunately, this sector was not able to dodge the implosion of the high-tech bubble. The victims of the slowdown included some of this sector's highest flyers. Jabil Circuit halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard also reduced their staffs. Despite these setbacks, employment expanded 1% in 2001. Unfortunately, it would be the last year-over-year job gain for several years. Employment plunged 8.8% in 2002. Micron Technology, the state's largest private employer, eventually succumbed to the high-tech downturn and reduced its Idaho workforce by about 1,000 in early 2003, and the state's computer electronics sector's employment base shrank another 9.1% in 2003. This sector's back-to-back job declines resulted in 3,400 fewer jobs in 2003 compared to 2001. Unfortunately, it has not experienced a quick turnaround. In fact, the recovery has been tenuous, with employment virtually unchanged in 2004 and 2005. Employment did grow a healthy 2.4% in 2006, however. It is forecast to rise to about 17,000 jobs this year, which is its high-water mark over the next few years. Indeed after this year, employment is forecast to slide to about 16,400 by 2010.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: Idaho's lumber and wood products sector will retreat from its 2006 peak over the forecast period due to the cooling U.S. housing market. This sector has benefited from the nation's recent housing boom. The accompanying strong demand for wood products has bolstered local employment levels, bucking the negative supply trends that have suppressed this sector for several years. Interestingly, Idaho's lumber and wood products sector was a latecomer to the housing party. National housing starts began heating up in 2001 and grew by at least 5% annually from 2002 through 2005. Looked at another way, the total number of U.S. housing starts soared from 1.57 million units in 2000 to 2.07 million units in 2005. Wood production rose about 4.0% over this same period. Despite these positive indicators, Idaho lumber and wood product employment did not increase until 2004. Unfortunately, job gains have been the exception instead of the rule for this sector. Supply factors have determined this sector's past performance and will determine its fate. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling public forests timber supply. The U.S. Forest Service estimates over the ten-year period from 1994 to 2004 the harvest from Idaho national forests fell by two-thirds, from 429.7 million board feet to 143.3 million board feet. This decline represents a significant resource loss to the state. Specifically, national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 12.3% in 2004. This decline has been particularly hard on the state's

Idaho Wood Product Employment and U.S. Housing Starts

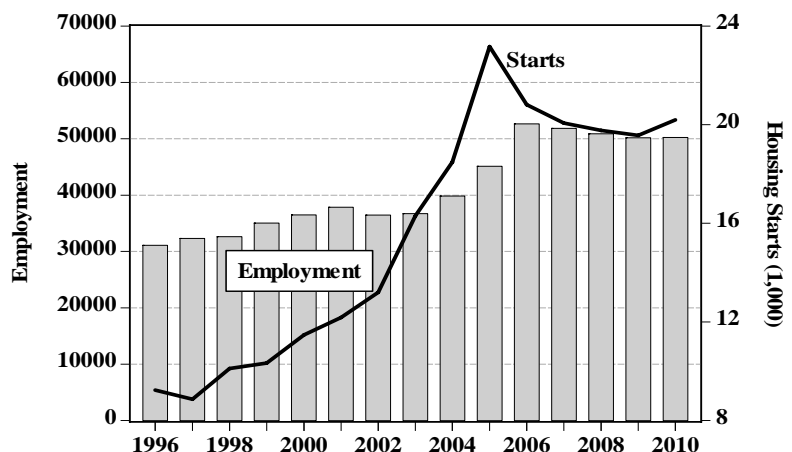


older, less efficient mills. Approximately 125 jobs were lost when Boise Cascade shuttered its Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. These closings have increased the lumber and wood products sector's overall efficiency, which suggest fewer workers will be needed in the future. Despite the industry's downsizing,

excess capacity remains a challenge. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. These supply factors will dominate this sector's outlook as the housing sector recedes. Unfortunately, there is evidence this is already taking place (see the national housing sector review). Closer to home, the Random Length's lumber composite index for November 2006 was down 23.4% from the previous November and its structural panel composite was off 26.9%. It is anticipated U.S. housing starts will fall to 1.50 million units this year then gradually expand to 1.75 million in 2010. Over this same time period, U.S. wood products production is expected to fall and remain below its 2002 benchmark. After peaking at 10,134 jobs in 2006, Idaho lumber and wood products employment is projected to decline to a nadir of 8,891 jobs in 2008 before recovering to 9,238 jobs in 2010.

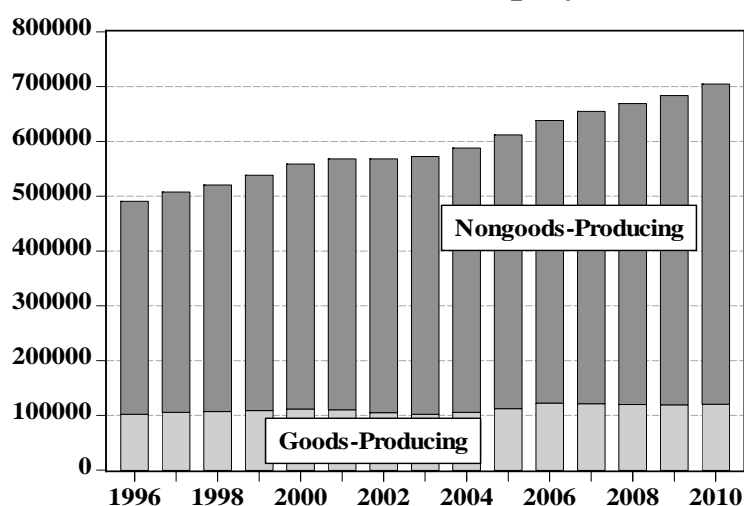
Construction: Idaho's high-flying construction sector should cruise closer to the ground over the next few years as the red-hot housing market cools. The industry's recent performance has been nothing short of extraordinary. Idaho housing starts soared from under 9,000 units in 1997 to a peak of 23,200 units in 2005. It slid to an estimated 20,800 units in 2006, which is still high compared to historical levels. Thanks to the strong housing starts, Idaho construction employment grew an average of 4.3% per year, which was nearly twice as fast as overall nonfarm growth. These statistics show how the construction sector has been a major force propelling the state's economy. Most local economy watchers agree construction cannot maintain its recent pace, and this raised fears that the coming correction may be severe. These concerns are legitimate. A hot market caused Idaho housing starts to peak at over 12,600 units in 1977, which was a threefold increase from 1970's 4,000 housing units. Three years later there were less than 6,000 housing starts in the state, and housing

Idaho Construction Employment and Housing Starts



starts remained below 6,000 units for the next decade. However, there are several reasons why a correction of this magnitude is not expected to occur over the forecast period. First, interest rates and population growth are expected to change gradually, giving the construction industry ample time to adjust. Second, although the Idaho housing sector has been robust, there does not appear to be a serious excess inventory of properties in the state. Third, Idaho could benefit from a boom in second homes. Fourth, nonresidential construction and alterations and repairs should remain healthy. Nonresidential construction typically follows residential construction as the businesses follow the population. Repairs and alterations still grow after a hot housing market cools because purchasers of existing homes usually take up to three years to remodel after purchasing a home. Indeed, in the current forecast Idaho construction employment expands in 2006 even though housing starts decline. The number of Idaho housing starts is forecast to recede from 20,813 units in 2006 to 20,195 units in 2010. Idaho construction employment is projected to ease from a high of 52,634 jobs in 2006 to 50,242 jobs in 2010.

Idaho Nonfarm Employment



Nongoods-Producing Industries:

Idaho's largest private sector will contribute most of the state's employment growth over the forecast period. It is estimated the nongoods-producing sector accounted for about two-thirds of all new jobs in 2006. This sector benefits from the huge job bases of both services and trade. The former accounts for 46% of total nonfarm employment while the latter counts for 17% of employment. The services category consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services;

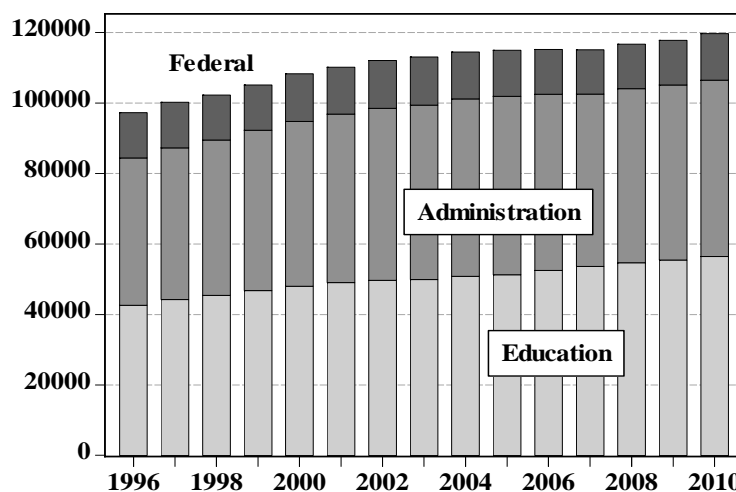
leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Not only is employment in services greater than trade employment, it has also grown faster than trade, advancing an average of 2.4% annually over the last five years versus 1.9% for trade. One of the services sector's star performers is professional and business services. This category grew an impressive 6.1% in 2006. Part of last year's strong showing reflects a reclassification of employees from the information services category to the professional and business services category in the first quarter of 2006. Looking forward, this category's employment should expand an average of 3.5% per year. Other strong performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics. As such, it is relatively immune to business cycle swings. This category should add jobs at a 3.6% average annual pace over the forecast period. The leisure and hospitality category will expand at virtually the same rate. Overall services employment is projected to increase 3.6% per year. The trade sector's employment should grow an average of 4.2% per year.

Government: Idaho's state and local government employment's future should look much like its past. That is, this sector's employment is forecast to rise slowly over the next few years. The number of state and local government jobs has grown from 75,900 in 1992 to an estimated 102,496 in 2006, or an average of 2.2% per year. This growth was largely driven by the need to meet the demands of the state's expanding population. Driven by a flood of newcomers, Idaho's population expanded nearly 30% from

1990 to 2000. Although population growth cooled in the early years of the current decade, it has recently accelerated. The U.S. Census Bureau estimates the Gem State's population jumped about 2.6% in 2006, making it the nation's third fastest growing state behind Arizona and Nevada. The Gem State's population is forecast to grow more than 2.0% per year over the forecast period, which is more than twice as fast as the nation's population. Constant population pressures will cause government payrolls to rise over the next few years to 106,468 jobs by 2010. The lion's share of growth will be education related. Traditionally, state and local

employment has grown much faster than federal employment. In fact, lately the former has been expanding while the latter has been contracting. Federal government employment has been falling because, unlike state and local government employment, Idaho federal government employment is driven more by budget decisions made in the nation's capital than by local population growth. It is anticipated real federal government purchases will grow slowly over the next four years. As a result, Idaho federal government employment should remain relatively flat. Idaho federal government employment is forecast to hover near 12,600 jobs during most of the forecast period. However, it jumps to around 13,200 in 2010 when the nation conducts its next census.

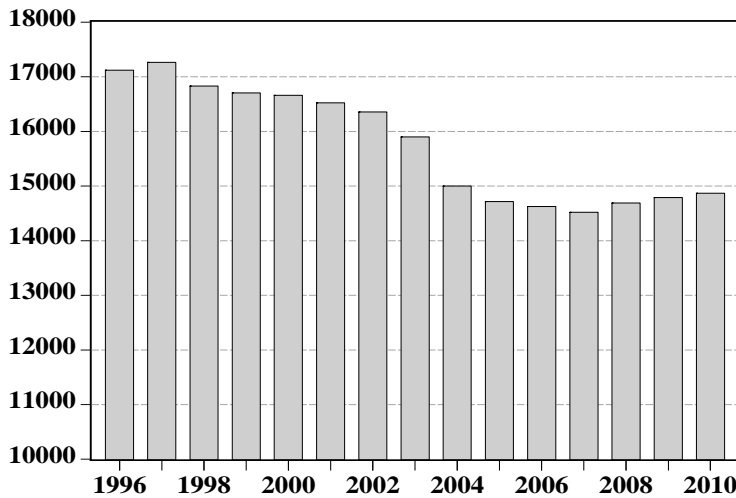
Idaho Government Employment



Mining and Chemicals: The Gem State's mining sector enjoyed a four-year run of job gains from 2002 to 2006. Over this period the number of mining jobs increased from 1,758 to 2,363. This showing can be characterized as a welcome reprieve from a declining trend, instead of a return to more prosperous times. Indeed, current data suggest mining employment peaked at 2,416 in the second quarter of 2006. This peak is significantly lower than its previous employment peak of 3,115 that occurred in the first quarter of 1997. The lower peak is consistent with a trend in which an employment peak is lower than its predecessor. This is apparent in the annual employment data. For example, Idaho mining employment peaked at 5,200 jobs in 1981. The next peak occurred in 1990, but it was 3,900 jobs. A peak of 3,000 jobs followed in 1997. Idaho mining employment is forecast to fall over the next few years, from 2,363 in 2006 to 1,866 in 2010. Like the state's mining sector, Idaho's chemical sector has experienced employment gains recently. These increases were a welcome relief from the pummeling this sector experienced early in the decade. Most notably Astaris (formerly FMC) shut down its elemental phosphorous plant located just outside of Pocatello in 2002. Chemical employment declined over 17% that year. It shrank another 4.9% in 2003. This sector's recovery began slowly but accelerated over time. It posted its biggest annual gain in 2006, due in large part to the reclassification of retail workers as chemical workers. This reclassification occurred at the start of last year and explains why chemical employment climbed at a 37.5% annual rate during the first quarter of 2006. It appears this sector has another year of growth in it. Chemical employment should reach 2,142 this year then gradually fall to 1,961 in 2010.

Food Processing: Idaho's food processing sector remains the state's second largest manufacturing employer despite having suffered nine straight years of job losses. With an estimated 14,623 employees in 2006, only the computer and electronics sector is larger. The food processing sector has experienced a

Idaho Food Processing Employment



rash of calamities. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restrict imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep

operations viable. About 400 jobs were lost when the company permanently closed the plant. These temporary setbacks do not mean this industry is in trouble. One of this sector's greatest strengths is its ability to adapt to changes, and this will keep the death knell from sounding. Although some plants have closed, new plants are opening. Gossner Foods, Inc. has opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years, making it one of Elmore County's largest employers. After several years of losses, Idaho food processing employment is expected to stabilize near 15,000 jobs.